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December, 1981

Mobil-Marathon: How Many More Sitting Ducks?
'Sweetheart Deal' Colors Texaco Card Fee Fight
Why One Marketer Seeks Varied Retail Tie-Ins

NPN

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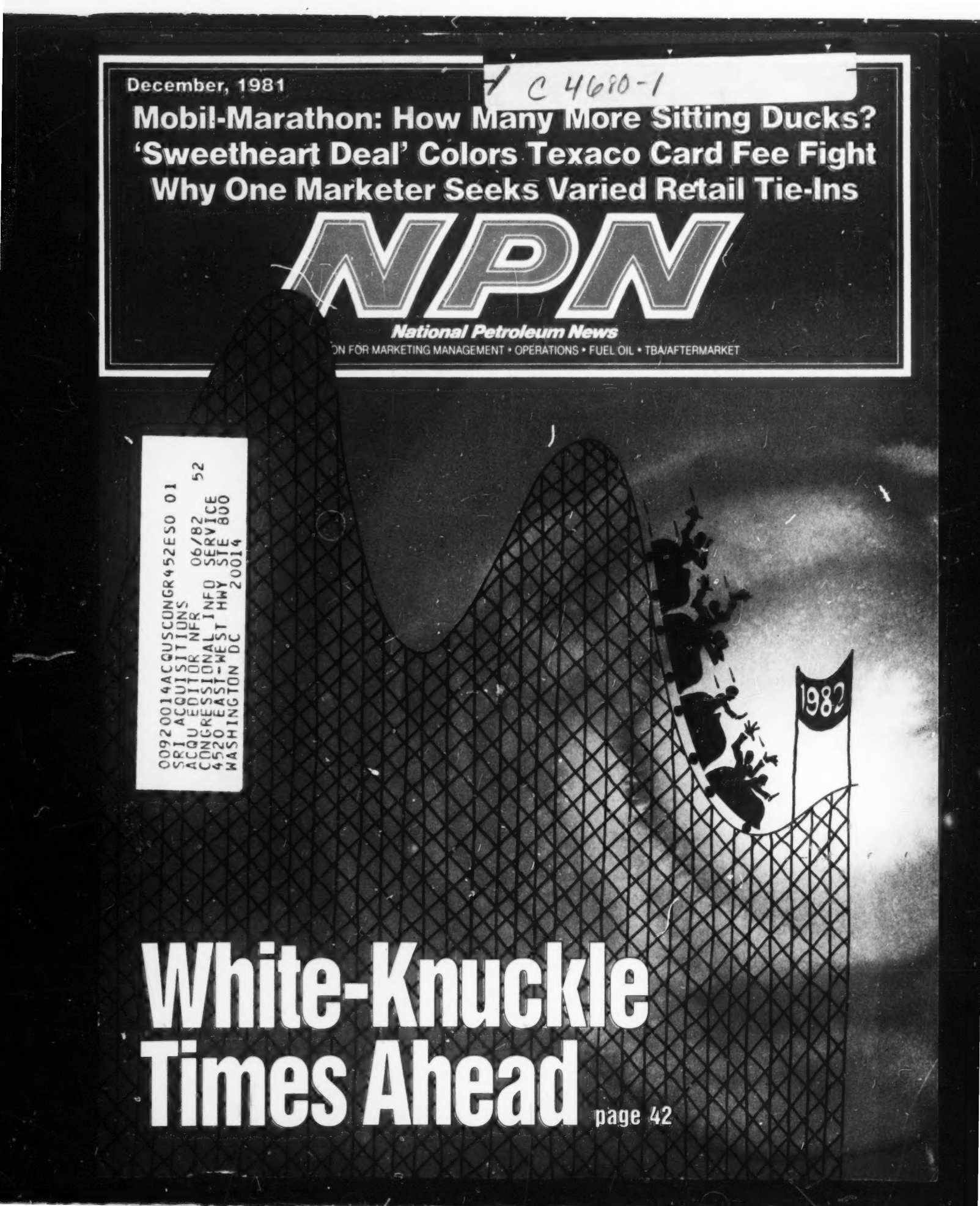

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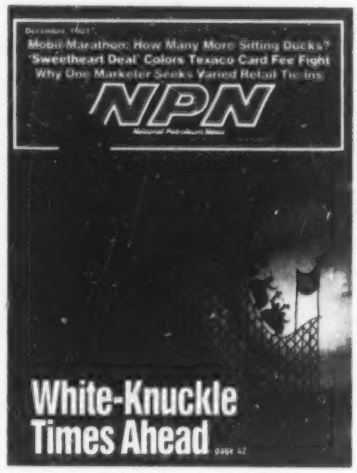
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Cover illustration by the Art Foundry

On the Cover

In the year ahead, oil marketers face some of the most sweeping changes ever in their 'normal business practices.' Shifts to varied terminal and rack pricing policies, credit card surcharges, cash discounts, rebates and competitive price allowances —even in good times, any one of these changes would be the basis for hot controversy. Collectively, however, and combined with a probable continuation of weak prices and margins, 1982 could have marketers thinking they're on a runaway roller coaster before the year is out. Page 42.

Sitting Ducks?

Mobil's bid to take over Marathon Oil last month was a stunner. But more, it raises the question of whether other 'second tier' oil companies are equally as vulnerable. The Reagan administration, with its hands-off business policies, is not expected to provide much of a safety net for companies of Marathon's ilk. Trust busters, today, are out of work. Page 29.

Leave Home Without It?

Many believe that Texaco, with its headlong and solitary thrust into credit card 'surcharges,' is only doing what decontrol prophets said was inevitable for all company marketing divisions eventually. But Texaco is the first company to try it. Despite an appealing price package available to the company's supply customers, which could take some of the sting out of the 3% credit card fee, jobbers and dealers are making a federal case of the situation—before other companies introduce fees and take the wind out of their 'competitive disadvantage' argument. Page 30.

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Trends

Time for Change in 'Art of Saying Nothing' about Marketing

An acerbic report by a West Coast entrepreneur may trigger some changes in oil company annual reports down the road; especially as to what they say, or do not say, about gasoline marketing for the benefit of their stockholders, financial analysts and the general public. It will be an interesting situation to keep an eye on.

The entrepreneur is John Roscoe, who's best known in the oil marketing field as the author of the "Dollars Per Day Survey" of the convenience store industry and the growth relationships of gasoline and groceries. Earlier this year, he decided he wanted to know more about the thinking and comments of oil company management on gasoline marketing. He compiled a list of 25 companies that account for 78% of the nation's gasoline production.

Reasoning that their annual reports should be a substantial source of information, Roscoe reviewed those of the 25 companies, then wrote each a letter requesting more. Eleven responded with supplemental data; the others turned him down for various reasons.

Out of it all, however, Roscoe came to conclusions like these:

- If annual reports are indicative of management concepts, oil companies obviously aren't too interested in gasoline marketing. For example, Roscoe's tabulation shows that the annual reports range in size from as few as 32 pages to as many as 92. The average was 57, in 1980. Of the 1,425 pages devoted to stockholder information, only 31 involved gasoline marketing—an average of 1-¼ pages per company. That, he suggests, implies benign neglect.
- Of the chief executives, none had an oil marketing background; all were engineers, legal, or financial men. This suggested to Roscoe that marketing just naturally gets short shrift because it is beyond the ken of the key executives.
- Upstream profits traditionally have been larger than those of the downstream network; hence this may be the reason why annual reports concentrate more on the upstream aspects than refining/marketing.

Roscoe sums up his feelings this way:

"The annual reports are impressive . . . full of nice photographs, and well written. It's only after you've read a number of them that the genre begins to appear ridiculous. It's even possible that all of these reports were written by the same staff.

"This would explain why offshore oil rigs, petrochemical plants, refineries, and pipes in general abound through these reports. They praise the present administration and decontrol, and make a plug for energy conservation. They are against the windfall profits tax but for more federal lands being leased for energy exploration and production. Above all, they emphasize that they are good corporate citizens. They want to solve the energy crisis and contribute to the good causes throughout America. But marketing gets lost in the parade.

"The major marketing statement in most reports is that stations will be closed to attain greater efficiency. Other changes include adding a high octane unleaded gasoline, or a change in pump design. Other than that, the reports have almost nothing [to say] about oil marketing."

Roscoe's son, Ned, a next-June graduate of University of Chicago in economics and philosphy, helped in the preparation of the study, which is entitled, "What Do the 25 Largest Oil Companies Have to Say About Gasoline Marketing in 1981?" In a discussion of marketing generally, the younger Roscoe makes this point:

"Profitable gasoline marketing of the future will . . . require a new management style. Today, many consumers perceive service station employees as people who couldn't get jobs anywhere else. A new approach to gasoline marketing might include that the employees have clean hands and cheerful personalities . . . If a person who pumps gasoline and rings up the sale doesn't have a good relationship with the company, the entire marketing process is undermined."

The Roscoe study nit-picks on deficiencies and achievements alike and raises some interesting and controversial questions. It's well worth reading; and it may lead to a change in the contents of future annual reports because gasoline marketing, as a contributor to oil company bottomline profit dollars, will have to carry its weight as never before. Stockholders and outside analysts may well feel they're entitled to more pertinent information on how marketing divisions, specifically, are faring.

—J. Richard Shaner

Marketplace at a Glance

AVERAGE GASOLINE PRICES IN THE U.S. (¢ per gal.)

SEPTEMBER	Gasoline (all types)	Leaded Regular	Unleaded Regular	Leaded Premium
U.S. City Avg.	$1.387	$1.305	$1.376	$1.458
Regions:				
Northeast	1.415	1.339	1.396	1.453
North Central	1.369	1.300	1.363	1.424
South	1.361	1.276	1.346	NA
West	1.432	1.339	1.427	1.473

Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

STOCKS (Add 000 bbl.)

	10/23/81	10/28/80
Gasoline (total)	237,441	251,213
Gasoline (unleaded*)	92,599	89,453
Kerosine **	48,085	51,098
Distillates	204,888	231,976
Residual	78,401	90,100

**Included in gasoline total.*
***Includes jet fuel.*
Source: American Petroleum Institute.

White-Knuckle Times Ahead

The oil marketing industry seems to be headed toward sweeping changes in its traditional petroleum product pricing and credit policies in 1982. These changes, combined with what promises to be another very tough year on retail prices and margins, may have marketers thinking they are on a runaway roller coaster before the year is out.

Some trends which seem to be taking shape include:

- **Terminal pricing.** Almost all majors, including the "Big Four," are beginning to adopt some variations on zone-type terminal pricing. The traditional dealer tankwagon or destination form of pricing product to distributors may be on its way out.
- **Cash discounts.** This is another tradition considered a "normal business practice" by jobbers that began eroding late this year. If market conditions permit, credit policies on purchases of product at wholesale are likely to become much stricter.
- **Credit cards.** Texaco's bold move to put a 3% surcharge on its credit cards won't be the last such attempt, some marketers predict. Oil companies, generally, have long complained that their free consumer credit cards lose money on petroleum product purchases. Similar to rack or terminal pricing plans, various moves to charge for the card services may be attempted before one catches on.
- **Rebates.** Although still opposed by many jobbers, various oil companies apparently find these a useful tool in meeting competitive conditions at wholesale and retail. They are likely to keep the programs in effect so long as general market conditions remain weak.
- **Weak margins.** Some forecasters see another 2% to 4% drop in gasoline demand in 1982, approaching 1981's decline. Several leading independent marketers see the possibility for more street turmoil next year than existed in '81.

Pain for the Jobber

Even in good years, any single one of the developments being forecast would cause hot controversy, especially those involving changes in basic pricing policies, credit terms, or credit card surcharges.

Collectively, and combined with a probable continuation of weak prices and margins, 1982 could become the year of big fusses.

Some dealers already are turning to the courts in efforts to stop Texaco's attempt to charge for its credit card [see page 30]. The National Oil Jobbers Council is threatening to seek government aid to stop major oil company price rebate programs. Around the country, meanwhile, jobbers complain that they don't receive as favorable a deal on the rebate programs as company-supplied dealers do.

There is a feeling in some quarters, though, that all of this could be a rather calm prelude to a much bigger storm already brewing.

"We see the markets continuing pretty much as they are now," says a top independent. "We think any jobber who has operating costs at his retail outlets of over 5¢ a gal. could be in trouble in 1982. We think there will be a bigger swing in market share next year than we saw this year, with the low-overhead marketer gaining at the expense of others. But we think you'll also see some 100,000-gal. gassers go out. Inflation, labor, and other general operating costs are eating some folks alive."

Marketers in various parts of the country already note an increase in the number of retail outlets being closed, and reports of sellouts or even bankruptcies at the wholesale level are increasing.

At the same time, however, a regional

LOOKAHEAD

By Marvin Reid
and J. Richard Shaner

marketer says he sees more new retail units going in than at anytime in the recent past. Almost all are "fuel stops," convenience-store units and the like.

"Lots of marketers lost 20% to 30% of their business this year," he believes. "They are getting pressure from their suppliers and some are trying to recover with modern facilities for today's market. You put these new entries in with those that have kept up with the market all along and those with outdated facilities will really have problems in the months ahead."

Three of the trends which appear to be taking shape—zone-type terminal pricing, stricter credit terms, and credit card surcharges—could be very painful for the typical jobber in good times. But right now, many claim they are battered and bleeding from the soft markets and thin margins of 1981. Some are likely to see such administrative moves as further attempts to cut into their margins.

Indeed, it does appear that oil companies are moving away gradually from various policies of the past that benefited jobbers specifically.

Company executives, however, were saying well before federal price and allocation controls were removed from gasoline that such changes are inevitable. They contend that refiner profit margins are too thin now to permit certain traditional practices of the past.

Is DTW System Dying?

One of the most hallowed traditional policies of the past has been the dealer tankwagon (DTW) system of pricing gasoline. Various jobber benefits, which NOJC now refers to as "normal business practices," came into being more or less as part of the DTW system. Now the entire package is under assault.

Many company people say the old DTW system has become antiquated and therefore must go.

Under the DTW method, a major normally established a single statewide dealer price for gasoline. This price then was discounted on jobber sales to provide the jobber his margin. Theoretically, the companies equalized freight rates to jobbers and dealers over an entire state, with those located at distant points from terminals paying the same price for product as those near the terminals.

In the past, jobbers and dealers also received various benefits as part of the basic DTW price. Theoretically, again, such items as brand identification, company services, liberal credit terms, and the free use of company credit cards were buried somewhere in the DTW price structure.

Many companies tossed in additional benefits over the years, such as "freight" or "hauling" allowances for jobbers.

The oil companies now seem to be moving toward individual terminal pricing of products on a zone basis. Some are beginning to tinker with the hauling allowances

as they do so. And, in the meantime, credit terms are getting tighter and free credit cards soon may be gone.

Most oil companies appear to be moving away from uniform pricing systems that cover a wide expanse of geography, such as the DTW method, but it isn't all that easy to suddenly switch to something like terminal pricing.

"Those who are trying terminal pricing while keeping their DTW systems have some real problems," says an executive of a company that dropped the DTW method three years ago.

Nevertheless, most of the larger majors recently had terminal pricing tests under way and this trend is expected to spread.

The most popular terminal pricing concept at present seems to be one involving small-zone pricing around a terminal. As hauling distances increase, so do prices to jobbers and dealers if a company pays for the hauling.

Chevron USA, for one, is testing a new system in the Southeast that it calls "fan-out pricing." Its product prices are now set on a terminal-by-terminal basis in Florida, Georgia, South Carolina, Alabama, Mississippi, Tennessee, and Kentucky.

Jobbers who buy product from a particular terminal and haul their own product pay a flat terminal price under the Chevron system. They also continue to receive a hauling allowance. If Chevron delivers product to distributors, it adds a freight fee to the terminal price, with this fee varying in relation to the marketer's distance from the terminal.

There have been some Chevron jobber complaints that hauling allowances were reduced under the new system but Chevron reportedly is examining these situations on a marketer-by-marketer basis.

Gulf Oil also has started a zone-pricing system at its terminals in Alabama, Mississippi, and Florida. Under its concept, too, prices vary depending on a jobber's distance from a terminal. Gulf appears to be expanding its program rapidly to cover all of its marketing territory.

Conoco, long an advocate of rack pricing, is another which recently started a terminal pricing program. Its plan reduces the destination price by the amount equal to the crosstown freight for a particular terminal. The Conoco plan, in effect, wipes out the nearest freight for a terminal, says Eldon Saul, coordinator of jobber and dealer relations. He says the plan has met with general approval. "There were some small inequities and we are looking at these," says Saul.

So far, these companies and others with rack or terminal pricing plans have been careful to avoid the complete elimination of hauling allowances. One company, Exxon, which generally has not allowed jobbers to haul their own product in the Southeast, has come out with a new policy to let them do so, with an allowance, starting Jan. 1. Some jobber sources see the Exxon move as a step toward rack pricing.

Credit Card Fuss

Jobbers apparently have resigned themselves to tighter credit policies as more and more companies move to stricter terms. But the big credit card fight touched off by Texaco recently was still raging as jobbers under other brands waited apprehensively for some announcement from their companies.

Dealer groups and some jobbers have attempted to create as great a furor as possible over Texaco's plans. One goal, apparently, has been to get the company to back off.

There are jobbers, however, who believe Texaco took the right step in saying it would begin charging 3% for the use of its credit card, effective Nov. 1. Oil company executives generally say this is something that has to come, too, although most were willing through October to let Texaco take all the flak.

"I think Texaco should be praised," says independent Truman Arnold of Texarkana, Tex., who flies the Texaco and Conoco brands as well as his private label, Road Runner. "This is necessary to get things cleaned up and straightened out. This could be a first step toward component pricing, which I strongly advocate. The credit cards need to stand on their own. I hope Texaco sticks with its plan."

Many jobbers began to push their companies for the right to buy both branded and unbranded product as market conditions became extremely competitive this year. The credit card issue and controversy over various rebate programs simply increased their interest. More companies may begin offering such dual programs in 1982.

Conoco is one company that has told its branded jobbers it is considering such a program. One industry newsletter, *U.S. Oil Week*, has reported that Conoco will unveil a plan in January that allows its branded jobbers to buy cheaper unbranded

U.S. Petroleum Supply and Demand Forecast—1982

(000 b/d, except closing stocks)

	1st Q	2nd Q	3rd Q	4th Q	YEAR
Domestic Product Demand:					
Motor Gasoline	6,233	6,526	6,601	6,476	6,460
Aviation Fuels	968	955	998	998	980
Middle Distillates	3,665	2,625	2,513	3,309	3,027
Residual Fuel Oil	2,375	1,823	1,906	2,097	2,050
Liquified Gases	1,693	1,298	1,287	1,644	1,480
Other Products	1,745	2,013	2,091	1,937	1,947
Total	16,679	15,240	15,396	16,461	15,944
Exports:	503	487	476	485	488
Total Demand:	17,182	15,727	15,872	16,946	16,432
Total Supply					
Domestic Production:					
Crude Oil	8,603	8,617	8,596	8,618	8,610
Natural Gas Liquids	1,578	1,558	1,524	1,553	1,553
Total	10,181	10,175	10,120	10,171	10,163
Required Imports:					
Crude Oil	4,277	4,084	4,193	4,399	4,238
Motor Gasoline	141	149	149	139	147
Aviation Fuels	40	42	47	46	44
Middle Distillates	226	152	144	185	174
Residual Fuel Oil	815	545	639	757	688
Liquified Gases	237	161	171	218	196
Other Products	105	111	111	108	109
Total	5,841	5,244	5,454	5,852	5,596
Other Supply:	727	603	717	675	684
Total Supply:	16,749	16,022	16,291	16,698	16,443
Closing Stocks (000,000 bbl.):					
Motor Gasoline	257.4	238.9	231.5	233.4	233.4
Aviation Fuels	56.3	59.8	61.5	63.8	63.8
Middle Distillates	171.5	191.0	227.2	214.7	214.7
Residual Fuel Oil	75.2	79.4	92.9	99.8	99.8
Liquified Gases	100.7	113.0	123.8	108.5	108.5
Other Products	72.7	77.5	74.9	79.1	79.1
Total Products	733.8	759.6	811.8	799.3	799.3
Unfinished Oils	123.7	125.2	124.1	123.4	123.4
Natural Gas Liquids	15.2	15.8	16.4	16.2	16.2
Crude Oil	370.9	369.9	365.6	360.7	360.7
Total All Oils:	1,243.6	1,288.7	1,317.9	1,299.6	1,299.6
Crude Runs to Stills:	12,736	12,506	12,722	12,883	12,714

Source: Independent Petroleum Assn. of America Supply and Demand Committee, October, 1981.

product. Conoco's Saul, however, said later that only a recommendation had been presented to company management, with no fixed date if it is approved.

"At this stage, we are interested and our jobbers are interested in such a plan," Saul added.

Most jobbers at a Conoco distributor meeting earlier had pushed for such a plan, as well as component-type pricing. Conoco promised to take a look at the component pricing concept, too, but told the jobbers such a system could be an administrative nightmare.

Rebate Squabble

Even rebate pricing programs, which many oil companies put into effect in 1981 to help jobbers and dealers meet competitive price conditions, are under fire from the jobbers. But the companies generally consider these programs to have some merit and 1982 probably will be another year of rebates.

William Quortrup, NOJC's president, wrote to 13 oil companies in October to complain that their rebate pricing programs were "counterproductive" and jeopardized the "economic viability" of many jobbers.

"The rebate programs tend to discriminate between marketers," Quortrup wrote. "Some jobbers, because they have lower contract volumes, became eligible for the rebate much sooner and thus have a competitive advantage over other jobbers. In addition, most companies are giving unlimited rebates to dealers which in some cases have allowed dealers to purchase product at or below many jobbers' cost."

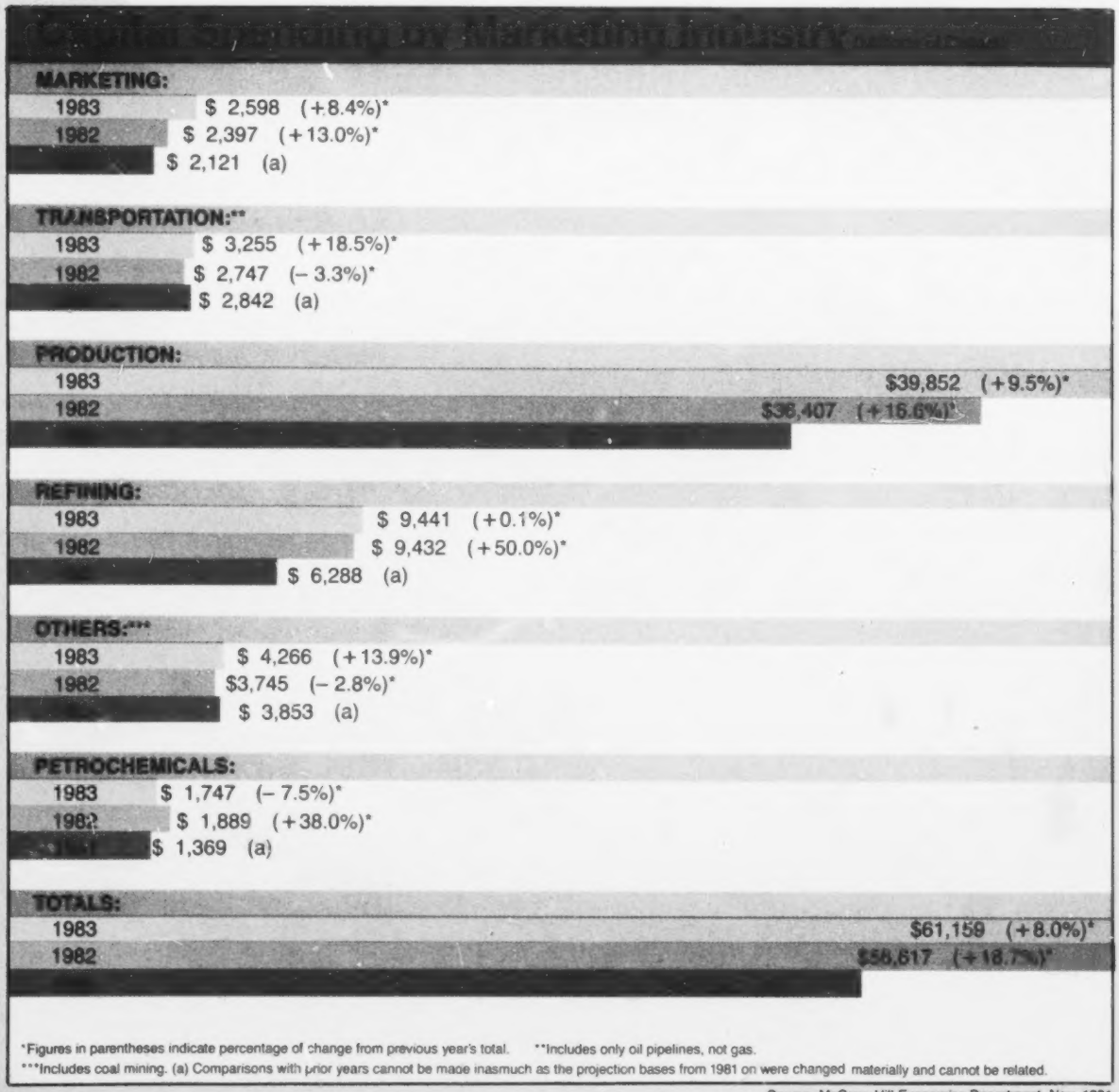
The dealer advantage under some programs in late October, in particular, had a number of jobbers upset. Large majors such as Texaco and Shell, in some instances, have had better plans for their dealers than jobbers recently.

Quortrup warned the majors that NOJC might seek "governmental redress" unless the companies discontinued their programs.

Some individual jobbers, on the other hand, now praise some of the rebate programs. A Texaco jobber, for example, said in late October that he liked that company's method. "With their rebate program, they have a hell of a good price right now," said the jobber. "I think their net after-rebate price reflects a reduction to offset the planned charge for credit cards."

NOJC's Quortrup, however, maintains that the rebate programs are little more than old-fashioned price protection in disguise and he wants companies to cut out such indirect price cutting. He believes they simply should reduce their prices to "realistic" levels to begin with.

Supplier-jobber arguments over branded and unbranded product prices are likely to mount in 1982 as new pricing plans, rebate programs, and other items are debated. Some jobbers would prefer a



*Figures in parentheses indicate percentage of change from previous year's total. **Includes only oil pipelines, not gas.
***Includes coal mining. (a) Comparisons with prior years cannot be made inasmuch as the projection bases from 1981 on were changed materially and cannot be related.

Source: McGraw-Hill Economics Department, Nov. 1981.

rack pricing system, with product priced on a component basis. They want the costs of such things as the brand, credit card, company services, etc., spelled out with the jobber able to pick and choose what he wants to pay for.

One large jobber, for example, has a buying formula under which he considers that a major company supply contract, with the brand and credit card, is worth 0.75¢ to 1¢ gal. over unbranded rack prices. He breaks this down to 0.3¢ for credit card costs and the remainder for other items.

His 0.3¢ for the credit cards may be close to what suppliers want. Texaco's 3% surcharge, for example, comes out to this when gasoline is priced at $1 gal. But most companies are very leery about a further breakout on a component basis.

This particular jobber is very large and buys product from some 13 branded and unbranded suppliers. He already uses his basic formula, advising his unbranded suppliers that he won't buy from them unless they are at least 1¢ gal. under his branded ones and the branded companies are told he can't afford to pull from them when their prices get more than 1¢ over unbranded rack prices.

"This is the only way we can afford to buy product in today's market," he said in early November. "We are competing with 5¢ to 6¢ rack-to-retail unbranded competition in the marketplace. We can't absorb wide differentials at the racks and make it with such competition."

Unless something happens to tighten supplies, weak retail prices and low margins are likely to drive more jobbers to such thinking. The net result could be more growth for unbranded sales while branded purchases continue their slide.

Almost everyone now sees 1982 being chock-full of controversy and major changes in marketing policies. Sudden upheavals in supply conditions could slow some of the trends but, barring such possibilities, many marketers are clasping the roller coaster white-knuckled until conditions settle down.

1982 Supply/Demand

Independent Petroleum Assn. of America's (IPAA) Supply and Demand Committee issues a forecast every fall that has been more on target than other industry and economic prognosticators [see table on page 44].

Here's the way IPAA sees 1982:

- **Economic activity** will exhibit a continued moderate growth in 1982, following an anticipated gain of approximately 2% this year.
- **Energy consumption** will show a modest gain after a 2.3% decline in 1981.
- **Oil demand** will decline about 140,000 b/d to an average 15.9-million b/d. This will be in the wake of an average 900,000 b/d decline in 1981—more than 1-million b/d over a two-year period.
- **Motor gasoline and residual fuel consumption** also will continue to recede, while middle distillates will reverse the downward trend of recent years and grow modestly.
- **Oil imports** will average 5.60-million b/d, down from an estimated 5.67-million b/d in 1981.
- **Refinery utilization** will remain low, with crude runs increasing less than 100,000 b/d from the 1982 level of 12.6-million b/d.
- **Crude oil production** will show a slight gain in 1982—a result of intensified drilling efforts.
- **Natural gas consumption** will increase slightly after a 1981 decline.

Getting down to specifics, the IPAA committee indicated it isn't the least bit concerned about supply in 1982. It said:

"Oil product supplies appear ample for 1982, despite the fact that refinery capacity is expected to be utilized at historically low levels.

"Stocks of both crude oil and products will continue to contribute to the supply picture in roughly the same degree that was evident during 1981."

The IPAA committee ignored the high cost of inventories, however, a factor that created severe financial strain for suppliers and marketers alike. Ballooning cost of carry was the prime reason that inventories of all sorts were pulled down in 1981 from the record-breaking levels that prevailed throughout most of 1980, to workable averages by November of this year. This was accomplished by a reduction of refinery utilization levels to the lowest point in years, and continuation of that reduction in a 68% to 71% of capacity range—20% to 25% below normal.

Product Demand

Here again is what IPAA has to say:

"Following an estimated decline of over 900,000 b/d in 1981, domestic product demand is expected to show a moderate decrease of 140,000 b/d to an average of 15.9-million b/d in 1982. The continuation of factors which curbed demand in 1981 [such as fuel switching, improved fuel efficiency, and conservation efforts] will continue to dampen product demand next year.

"Motor gasoline consumption is forecast to fall 1.7% in 1982, or approximately 300,000 b/d in 1981 from the adjusted 1980 level of 6.86-million b/d. This decline in motor gasoline consumption results mainly from continuing improvements in vehicle efficiency which is increasing the miles per gallon. This more than offsets the increase in vehicle population and miles driven.

"Middle distillate demand is expected to increase 1.5% in 1982 to an average 3.03-million b/d, following an estimated decline of nearly 4.7% in 1981. The modest increase in 1982 is a result of increased diesel fuel demand continuing to be partially offset by reductions in the heating sector.

"Residual fuel-oil demand is expected to decline 4.7% to an average 3.05-million bbl. in 1982 following a decline of 15.6% in 1981. The decline in 1982 demand will continue to be seen in all markets due to the substitution of other fuels. Consumption of this product will have declined over 1-million b/d during the 1978-82 period.

"Aviation fuel consumption is expected to average 980,000 b/d in 1982, a decline of 2.0%. This follows a drop of 9.4% to a level of 1-million b/d in 1981. This lower demand assumes a continuation of the currently mandated reduction in airline schedules.

"Demand for liquefied petroleum gas is expected to remain flat in 1982, following an increase of 1.7% in 1981. Other products are expected to increase 2.3% in 1982 following a decline of 1.5% in 1981."

IPAA and John Lichtblau, head of Petroleum Industry Research Foundation and well known as an oil economist, see eye-to-eye on the nation's economic growth in 1982, with the New Yorker a bit more optimistic. He believes gross national product (GNP) may increase as much as 3.0% whereas IPAA had a ceiling of 2.2%.

Lichtblau does not share IPAA's pessimism about oil demand in 1982, however. Says he:

"Oil demand will increase modestly in 1982, particularly if the real price should decline somewhat. We project a possible growth of 1.0% to 1.5%, to 16.4-million-16.5-million b/d, reversing a three-year trend of declining demand.

"Assuming no change in domestic crude production in 1982, the demand increase will cause net imports for commercial requirements to rise about 500,000 b/d due to inventory adjustments."

DOE and Fuel Oil

Department of Energy's Energy Information Administration also believes that the GNP will move up about 3% in 1982, that petroleum demand will drop about 4% in 1981 and rise slightly in 1982 as the GNP increases.

Of more immediate concern is the government agency's projections on home heating oil consumption this winter.

It believes demand for distillates (including some diesel fuel) will be about 3.25-million b/d in the last quarter of 1981, 3.56-million b/d in the first quarter of 1982, and 2.74-million b/d in the second quarter. This would contrast with consumption of 3.28-million b/d in the last quarter of 1980, and 3.47-million b/d and 2.43-million b/d respectively for the first two quarters of 1981.

Capital Spending

Oil's capital spending plans always are a good barometer of its designs on the future.

McGraw-Hill's fall investment survey, released publicly only three weeks or so

ago, was on the rosy side for 1982 and beyond [see table on page 45].

It projected petroleum capital spending of $47.7-billion in 1981; $56.6-billion in 1982, an increase of 18.7%; and $61.1-billion in 1983, a further increase of 8.0%.

The publishing firm's economics department issued a caveat in its 1982-83 forecast, however. It said that it had recently reviewed all its projections of recent years, compared them with actual results, then revised its historical bases to bring the projections in line with reality.

(This resulted in a diminution of all 1982 concepts and a reduction in the dollar and percentage totals in all functions of the petroleum industry. In addition, a spokesman noted, comparisons with data of the past are not possible because of this shift in the historical totals and relationships.)

Oil Marketing

In the new projections for 1982 and 1983, oil marketing will not be doing badly in the capital spending pie though its total, $2.1-billion to $2.5-billion per year, is only a small part of the $48-billion to $61-billion oil companies will spend.

This forecast anticipates an expenditure of $2.1-billion on marketing facilities by the end of this year; $2.4-billion in 1982, an increase of 13.0%; and $2.5-billion in 1983, an increase of 8.4%.

On a three-year basis, then, this indicates that oil's marketing investments should top $7-billion. Although this may sound like an awful lot of money, it's just about the same level the industry has been maintaining since 1977-78, when inflation factors are considered.

Most of this money is going into service-station modernization and construction, primarily the former, plus toward the equipment involved; vapor recovery requirements, and other essential hardware.

It would appear, however, that these projections fall short of considering the burgeoning revolution in new equipment concepts, such as multi-product and overhead dispensers, computerization and microprocessors, and other hardware items that are available and were on display at the Petroleum Equipment Institute's trade show in October [see page 50].

McGraw-Hill says refining facilities will get capital programs exceeding $9.4-billion in 1982 and 1983, for a three-year total of $25-billion. This is the most that has been invested in refining in years. It is giving recognition to the need for more sophisticated equipment to meet the ever-spiraling demand for unleaded gasoline.

As is the tradition, exploration and production will get the lion's share of capital investments over the three years—a total of more than $100-billion. With total oil price deregulation in 1981, the returns on these investments are seen as the truly profitable activities the big companies can pursue. The incentives are in place.

Washington Scene

If it isn't a *fait accompli* by Dec. 1, as was a distinct possibility just a month ago, decontrol of natural gas could be one of 1981's cliff-hangers or a for-real occurrence in early 1982 [see page 34 for details].

Since last September, decontrol has been on and off the front burner in the White House so often that most industry people refused to get excited about the recurrent rumors and corridor talk.

President Reagan is for it, and so is his cabinet council. At the time he won his AWACS battle in the Senate, Washington was filled with fresh rumors that a decontrol proposal would be sent to Congress before the year was out. This was a far cry from earlier convictions that Reagan necesarily would have to hold off until 1982.

On the contrary, said one savvy industry executive, "this is strictly a political issue, not an economic one. Reagan's committed to free enterprise and he wants it, just like he wanted gasoline decontrol. And when he senses that the time is ripe, watch him go. It'll cause an uproar in the House because of people like [John] Dingell [D-Mich.] but it will be hard to knock down."

Fuel-oil jobbers are all but cheering. For them, the end is in sight of the widely disparate prices and competitive factors resulting from federal controls, which have kept gas prices artificially low since the 1950s.

There should be some controversy over the dismantling of the Department of Energy. Reagan started it his first week in office when he appointed a little known dentist from the Carolinas to preside over its obliteration. DOE's budget already has been reduced sharply, people are being dropped from the payrolls by the thousands and offices are being closed or phased out.

In another year or two, all that will be left of DOE will be its synthetic fuels programs which may, or may not, be turned out to other government agencies.

The man who took over the enforcement division of DOE in October bravely said he is going to continue prosecution of price control violations. How long he or DOE lasts, however, is questionable.

There could be a ruckus in Congress over an emergency stand-by allocation plan for oil products, particularly gasoline. In October, General Accounting Office bitingly noted that the nation is "no better prepared to deal with significant disruptions than it was in the 1973 oil embargo" [see page 35].

TBA Outlook

Just as one man's problems often turn to good fortune for another, the demise of many automobile dealerships is enhancing the aftermarket prospects for service stations.

Here too, the continuing decline in the service-station population is making things all the cozier for those who survive.

The widespread closing of car dealerships means there will be some 20,000 fewer service bays available in the immediate future, say TBA experts.

But with these changes come increasing problems for service-station TBA operations. Do-it-yourselfers are still geared up to change oil and do minor tinkering on their new cars. But the sophistication of the newer engines is driving more of them to service stations for repair work beyond their capabilities, especially the electronics.

At the International Oil Industry TBA Group meeting this fall, question was raised whether either the oil companies or the service stations are adequately preparing themselves for this development [see page 52].

The erosion of margins in the gasoline industry means that aftermarket services, in many cases, will have to be stepped up to enable retailers and jobbers to stay solvent. It would appear in 1982 that the opportunities are there for those who would take advantage of them.

Lube Oils

Up modestly from the depressed levels of 1980 but nonetheless well below the peak of 1979, motor-oil sales are expected to flatten out in 1982 and continue in that same vein through 1986.

This is the projection of Charles H. Kline & Co., Fairfield, N.J., marketing consultants who began to track crank-case oil sales early last year.

Kline says U.S. consumers will purchase 615-million gal. of motor oil in 1981. The outlook for 1982 is a bit under that—perhaps 600-million gal. Over the next four years, consumption should average about 600-million gal. annually, according to Kline.

Peak year 1979 saw U.S. consumers buying 670-million gal. This climaxed a steady growth that began in 1974 at the 590-million-gal. level.

The Kline survey shows that the lube-oil market is moving strongly toward such merchandisers as discount stores, home and auto stores, department stores, and supermarkets. The trend to do-it-yourself handling is the biggest spur in this direction.

By contrast, service stations, repair garages, and car dealers are sharing less of the declining gallonage.

Kline says Quaker State still is the largest marketer of motor oils with Pennzoil a close second. "These two control nearly 25% of the gallonage," the survey says. Texaco, the leading brand sold through service stations, ranks third, followed by Ashland (Valvoline), Witco (Kendall and Amalie), Shell, and Exxon. All told these 14 suppliers represent 80% of the market.

Kline predicts that the dollar value of the lube-oil market will rise to $2.8-billion by 1985. NPN

Gas-Heat Conversions and Additions, 1980-81

	1980 (Add 000)				1981 (Add 000)		% Change	% Change
	Total Unit (a) Additions	Total Unit (b) Conversions	Total From Fuel Oil	% Converted From Fuel Oil	Total Unit (a) Additions	Total Unit (b) Conversions	Total Additions '81 vs '80 (Col. 5 vs 1)	Total Conversions '81 vs'80 (Col. 6 vs 2)
United States	**1,090.2**	**583.0**	**498.0**	**85.4%**	**907.7**	**394.5**	**−16.7%**	**−32.3%**
New England	72.9	63.5	62.8	98.9	20.6	16.9	−71.7	−73.4
Mid-Atlantic	238.2	212.2	199.0	93.8	165.0	138.7	−30.7	−34.6
East North Central	241.2	164.9	118.7	72.0	195.2	109.1	−19.1	−33.8
West North Central	63.3	28.4	16.8	59.2	37.6	12.0	−40.6	−57.7
South Atlantic	139.6	82.9	79.4	95.8	150.4	91.5	+7.7	+10.4
East South Central	22.5	4.4	2.4	54.5	23.7	4.1	+5.3	−6.8
West South Central	75.6	4.2	3.6	85.7	66.4	3.3	−12.2	−21.4
Mountain	71.3	2.6	1.6	61.5	75.3	2.3	+5.6	−11.5
Pacific	165.6	19.9	1.7	8.5	173.5	16.6	+4.8	−16.6

(a) Includes new construction; (b) includes conversions from fuel oil, electricity, coal, wood, etc.
Source: American Gas Assn. "Gas Househeating Survey: 1980," issued October, 1981.

Gas Heat Converts: 1981's Dying Cult

For fuel oil jobbers and dealers, the news that flowed from the American Gas Assn.'s (AGA) recent meeting in New York City ran both hot and cold.

First, the bad news: The gas utilities are still bullying the heating oil industry in the matter of residential oil-to-gas conversions.

Now, the good news: The utilities aren't nearly as awesome as they used to be, and it appears that the pace of conversions, while still high, is nevertheless confronting its first decline in years.

Heating oil jobbers and financial markets interpret the 1981 slippage as proof positive that householders are reacting negatively to the perception that natural gas prices will rise rapidly in the wake of decontrol, which is a distinct 1982 possibility.

This, they say, would close or reduce the price gap between natural gas and heating oil for residential use, and make them competitive again.

Privately, fuel oil jobbers are rejoicing at the prospect of natural gas decontrol. Publicly, they are championing the proposal and putting increasing pressure on the Reagan administration to act on it as early as possible.

The erosion in oil-to-gas conversions is the first relief oil jobbers and retailers have had in the space-heating market in years. They have been fighting the utilities for a quarter of a century but it always has been a case of hundreds of independent jobbers versus a utility monopoly in most markets—much like a band of Lilliputians versus Jonathan Swift's Lemuel Gulliver.

32.3% Drop in 1981

AGA, in an abstract of its annual gas house-heating survey, says it expects its net residential additions (new construction and conversions from other fuels) to be down 32.3% in 1981—after years of steady growth. It also expects that conversions from fuel oil to gas will be down, too—16.7% below peak-year 1980 [see the table above].

Gas' biggest declines are coming in the New England and Mid-Atlantic areas, fuel oil's biggest marketplaces.

In New England, net residential additions are expected to be off 71.7% in 1981, and oil-to-gas conversions, 73.4%.

The Mid-Atlantic chart shows that net additions for gas could be down 30.7% and conversions, 34.6% lower in the year just coming to a close.

The West North Central region, traditionally gas country, also is experiencing a slump in net residential additions, off 40.6%, and in conversions, off 57.7%.

AGA indicated that the year 1980 may have been the peak in net residential additions and in total oil-to-gas conversions.

Gas utilities picked up almost 1.1-million new customers in 1980, of which 47% were new homes and 53% were conversions from other fuels—heating oil, propane, electricity, coal and wood.

Fuel oil was the biggest loser, to be sure, with 497,950 homes (85% of the total) switching to gas. Here again, the statistical breakdown leaves no doubt that New England, the Middle Atlantic states, the North Central States, and the South Atlantic were the areas of greatest turnovers.

Although AGA's background data do not cite reasons for the big jump in 1980 additions and conversions, many industry observers note that fuel oil prices climbed rapidly during the year and at a time when natural gas supplies seemed to be loosening up and holding promise of a rosy future.

The AGA report says the gas industry heated 44.6-million homes in 1980, of which more than 10.6-million were in the East North Central area—primarily, the Upper Midwest and Great Lakes states.

It also says the gas utilities gained ground in the new home market, from 34% in 1979 to 39% in 1980. Electricity and fuel oil netted the balance, with electric heat snaring the lion's share—about 50%.

Electric Bills Way Up

Encouraging to heating oil marketers, too, are the big jumps and wide variances reported in electric utility rates around the country. In a recently released survey covering the 1980-81 heating season which compared residential electric bills, the National Assn. of Regulatory Utility Commissioners reported sharply increased electricity costs over the prior years and a wide disparity in rates.

A random sampling of 50 of the 198 service territories contained in the survey shows that residential electric bills jumped about 17.25% over the year before. This contrasts with an 11.3% increase in the Consumer Price Index during the same period. Using 500 kilowatt hours as a basis, electricity costs climbed from 5.4¢/kwh to 6.33¢/kwh during the year.

The report also showed a wide variance in rates depending on the service territory of the consumer. For example, in 12 service areas consumers are paying in excess of 10¢/kwh, while in 16 other areas, the cost is less than 4¢/kwh. Of the 25 major cities, residents of New York pay 11.67¢/kwh, while in St. Louis the cost is 4.36¢/kwh. Other high-average cities are Honolulu (10.06¢), San Diego (9.89¢) and Boston (9.45¢). Low rates were found in Atlanta (4.70¢), Oklahoma City (4.75¢) and Cincinnati (4.89¢). NPN